Brotherhood of St Laurence
Working for an Australia free of poverty

Submission to the Essential Services Commission of Victoria

Inquiry into the financial hardship arrangements of energy retailers

Brotherhood of St Laurence

May 2015

About the Brotherhood of St Laurence

The Brotherhood of St Laurence (BSL) is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the BSL continues to fight for an Australia free of poverty. We undertake research, service development and delivery, and advocacy, with the objective of addressing unmet needs and translating the understandings gained into new policies, new programs and practices for implementation by government and others.

Our work on energy and financial inclusion

The BSL has two areas with particular interest and expertise in energy-related hardship issues for low-income and vulnerable consumers:

- The Research and Policy Centre's Energy, Equity and Climate Change team works on energy affordability, fuel poverty and the role that energy efficiency (including the Home Energy Efficiency Upgrade program) can play in reducing energy bills.
- The Financial Inclusion team has experience from Saver Plus and other financial literacy programs and delivery of the Home Energy Efficiency Upgrade Program.

The Brotherhood does not deliver energy retailers' financial hardship programs.

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Overarching recommendations

Recommendation 1: Further investigate the costs of implementing financial hardship programs including the proportion of resources directed to those most in need, and the appropriate level of cost sharing between energy retailers and government to address different types of energy billing hardship and fuel poverty.

Recommendation 2: Fund trials of financial hardship responses provided by community organisations working in partnership with energy retailers and others.

Recommendation 3: Investigate non-stigmatising ways to better identify people experiencing ongoing energy billing hardship before this escalates into unmanageable debt.

Recommendation 4: Investigate ways to assist those households who are constraining their energy consumption to the detriment of their health and wellbeing.

Recommendations relating directly to inquiry questions

Recommendation 5: Provide universal access to flexible payment options (e.g. instalments, Centrepay) and to adequate information, to prevent people from falling into energy billing hardship and needing to access retailers' financial hardship programs (ESC question 2).

Recommendation 6: Work with community organisations, energy retailers and government agencies to develop effective incentives to promote innovation in assisting customers who are experiencing energy billing hardship (ESC question 3).

Recommendation 7: Build greater incentives, linked with financial literacy, into programs for customers experiencing energy billing hardship (ESC question 3).

Recommendation 8: Reduce retailers' discretion in interpreting ERC V11, so as to ensure customers in energy billing hardship are identified and supported (ESC question 4).

Recommendation 9: Define terms in ERC V11 to facilitate timely and effective support for customers (ESC question 4).

Recommendation 10: Consider requiring retailers to offer the following support:

- for every customer experiencing energy billing hardship: flexible payment options (including Centrepay), the best available retail market contract, Utility Relief Grants (URGs) (for eligible customers), energy advice (by phone and online) and referral to home energy visits, financial literacy support and financial counselling
- for all customers in recurring or persistent energy billing hardship: the above, plus incentives programs to address debt, and/or debt relief programs (ESC question 4).

Recommendation 11: Consider appropriate funding of home energy visits, financial literacy support and financial counselling (ESC question 4).

Recommendation 12: Monitor retailers' expenditure on customers in different stages of hardship (e.g. persistent hardship) and measure the expenditure against outcomes (ESC question 5).

Recommendation 13: Further consult with stakeholders to develop a set of robust financial hardship program outcome measures, including measures of:

- energy bill reduction relative to consumption
- energy consumption reduction following energy efficiency advice or improvements
- decreased debt (ESC question 6).

Recommendation 14: Require retailers to proactively communicate about their financial hardship programs and policies and how to access them, to their customers before they are in energy billing hardship (ESC question 9).

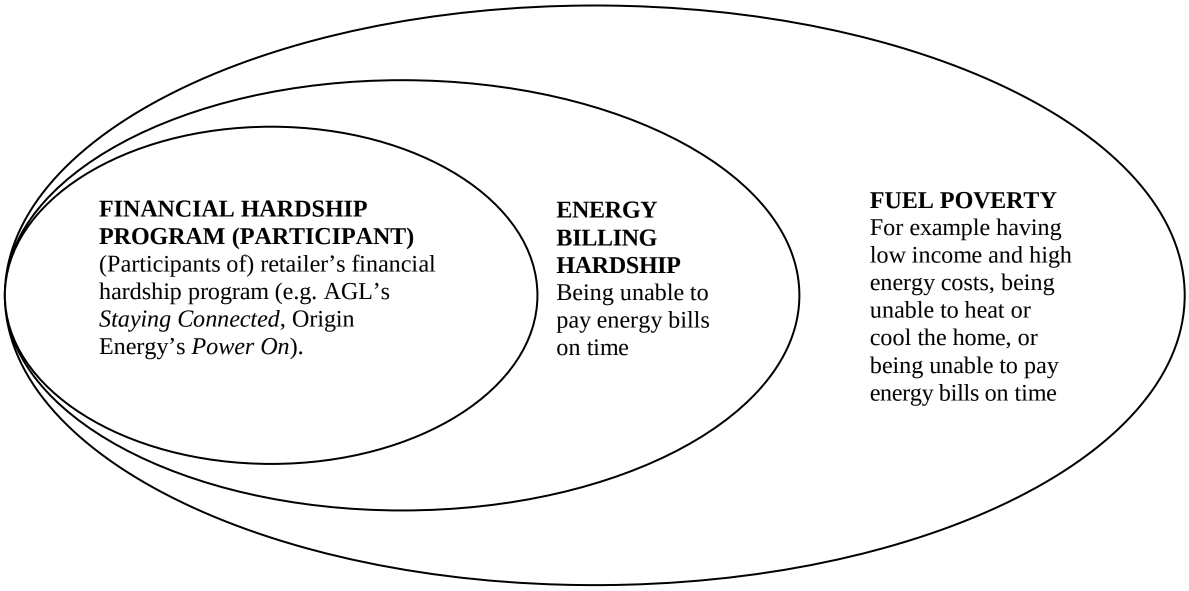
Recommendation 15: Assess opportunities for best practice in water hardship programs to be applied to the energy sector (ESC question 11).

Recommendation 16: Improve access to energy efficiency as an important tool for preventing and managing energy billing hardship (ESC question 14).

Definition of terms used in this submission

In this submission we use the following terms: financial hardship programs, energy billing hardship and fuel poverty. The relationship of these to each other is shown in Figure 1.

Figure 1 Overlapping terms relating to energy and hardship



In this submission:

- *Financial hardship program* refers to the specific programs offered to customers who have the intention but not the capacity to make a payment within the timeframe of the retailer’s payment terms, as required in ERC V11. We recognise there are other financial hardship programs that address broader issues of financial difficulty and poverty.
- *Energy billing hardship* refers to the situation of people unable to pay their energy bill on time (some of whom may be in retailers’ financial hardship programs).
- *Fuel poverty* is a broader label that we use for energy-related hardship, which may include having high energy costs but a low income, being unable to heat or cool one’s home, or being unable to pay energy bills on time.

Overview

The Brotherhood of St Laurence welcomes the ESC's inquiry into the financial hardship arrangements of energy retailers.

Effective hardship programs are essential

Energy, like water, is an essential service for a decent standard of living. Energy-related hardship can mean customers can't afford their energy needs or other essentials for their families. **The ultimate goal of hardship arrangements should be that no customers are disconnected from energy supply and that customers regain enough financial autonomy to move out of hardship.**

Outcomes for people in energy billing hardship are deteriorating

The level of disconnections is at its highest in 18 years. The average debt for participants on exit from financial hardship programs was higher than for new entrants.

Energy billing hardship has multiple causes

Energy billing hardship can be caused by high energy expenditure, insufficient money to make ends meet, inadequate consumer protections, limited access to hardship supports and insufficient household skills and experience in managing changes in financial circumstances. Each of these may be experienced in isolation or in combination.

Some people are more vulnerable to hardship than others

We are particularly concerned about those who are highly vulnerable to energy billing hardship:

- people living on a low income
- people experiencing multiple financial stressors (including those living in growth areas)
- people living with a disability
- people living in energy-inefficient homes.

These groups have varying incomes and other household expenditure. They also vary in the extent to which they can reduce their energy expenditure.

Other forms of fuel poverty also need to be addressed

Our research suggests that people who are unable to pay their energy bills are not the only people facing fuel poverty (energy-related hardship). Importantly, people who are unable to heat (or cool) their home are more likely to report additional financial stressors than those who report they are unable to pay their energy bills on time. This group is currently overlooked in hardship responses.

Hardship responses need to be improved

Current hardship responses are not working optimally as evidenced by increasing rates of disconnections, higher average debts on exit from financial hardship programs than on entry and increasing EWOV resources being spent helping Victorians who can't pay their bills.

We propose improvement of Victorian energy billing hardship responses by:

1. Improving the current financial hardship arrangements of energy retailers
2. Funding innovative trials of hardship responses

We also present responses to selected inquiry questions, with associated recommendations.

1 Effective hardship programs are essential

The BSL welcomes the Victorian Government's decision to conduct an *inquiry into best practice financial hardship programs of energy retailers*. We support the primary goal, that is, to *provide confidence that energy customers who cannot pay their bills in full and on time get the assistance to which they are entitled from their energy retailer*.

Energy is an essential service for a decent standard of living. The ultimate goal of hardship arrangements should be that no customers are disconnected from energy supply and that customers regain enough financial autonomy to move out of hardship.

Effective arrangements to assist households who are struggling to pay their bills should ensure those at risk of losing access to energy through disconnection are able to remain connected. Support also needs to be given to households who are restricting their own consumption in ways that are detrimental to their health or wellbeing, but are still paying their energy bills on time.

Victorian energy consumers should be able to maintain access to the services energy enables: heating, cooling, cooking, entertainment and lighting. However, rates of disconnection are increasing (ESC 2014a).

People need to access retailers' *financial hardship programs* when they cannot pay their bills in full and on time (energy billing hardship). There are some positive indicators in relation to these programs. For example, participation increased and some 1,238 appliances were supplied to program participants. Nonetheless, the current system could be improved.

This submission highlights areas requiring action or consideration by the ESC and Victorian Government.

Outcomes for people in hardship programs are deteriorating

Current hardship arrangements are not working optimally, as evidenced by:

Increasing disconnections: The level of disconnection of energy customers in Victoria is at its highest in 18 years and is also the highest in Australia (ESC 2015). Over 34,000 electricity customers were disconnected in 2013–14 (up 36% from 2012–13); the disconnection rate increased to 1.47 per 100 customers, from 1.07 in 2012–13. The ESC reports that disconnections of concession card holders have also risen steadily over the past five years (although these remain less than 30% of disconnected customers) (ESC 2014b, p. 34). Gas disconnections also increased by 42% (ESC 2014a). In 2013–14, retailers disconnected 4.7% of electricity or gas customers who had participated in a hardship program in the previous 12 months, up from 3.8% in the previous year (ESC 2014b, p. 9).

Table 1: Electricity and gas disconnections, Victoria, 2012–13 and 2013–14

	2012–13	Rate/100 customers	2013–14	Percentage increase on 2012–13	Rate/100 customers
Electricity	25,254	1.07	34,448	36	1.47
Gas	16,979	0.89	24,178	42	1.33

Source: ESC 2014b

High levels of non-compliance: In 2012–2013 and 2013–2014 more than half the customers exiting hardship programs did so because they did not comply with the requirements.

Increasing debt on exit: The average debt of participants on exit was higher than that of new entrants (ESC 2014b).

Broader issues are contributing to hardship: The AER's recent review of customer hardship policies suggests that while there is not widespread retailer non-compliance with the Retail Law and Rules, broader issues of energy affordability and energy literacy are impacting consumers' energy-related hardship (AER 2015).

2 Energy billing hardship has multiple causes

Energy billing hardship can be caused by a variety of factors, including:

- **high energy expenditure**, which can result from high energy costs (causes may include sub-optimal retail market contracts) or high energy usage (causes may include poor quality homes or appliances, health or disabilities, large household size)
- **insufficient money to make ends meet**, which can result from low income or high expenditure such as housing costs (mortgage/rent etc), or a lack of financial literacy or control
- **inadequate consumer protections**, including inadequate information for people experiencing payment difficulties
- **limited access to financial hardship programs,** leading to unmanageable debt.

Each of these may be experienced in isolation or in combination. The Appendix provides more detail on these causes and the related recommendations.

Some people are more vulnerable to hardship than others

Energy billing hardship extends beyond those people in financial hardship programs. We are particularly concerned about the compounding impacts of energy billing hardship (being unable to pay energy bills on time) for people on low incomes, people facing multiple financial stressors, people with a disability and people living in energy-inefficient homes.

Inadequate incomes lead to hardship

Our research *Fuel poverty, household income and energy spending* (Azpitarte et al. 2015, forthcoming) shows that while people in the highest decile of the Australian income distribution only spend around 1% of their income on energy, those in the lowest income decile spend around 7% on average. Water billing hardship research includes reports that many people in hardship simply have inadequate incomes. Despite being effective budgeters on low incomes, they can be pushed into hardship by one critical incident such as a large bill (WCG 2014).

Of the 2,348,461 Victorian residential electricity customers (ESC 2014b), 894,106 (or 38.1%) received a state electricity concession (DHS 2014). Recent data from the ESC (2014b) shows that 71% of people in financial hardship programs received such a concession, suggesting people with concessions are highly over-represented. However, this may have a positive effect, as only 25% of those who were disconnected were concession card holders, suggesting financial hardship programs may be working to keep some of that group connected.

Multiple financial stressors increase vulnerability

Households with multiple financial stressors such as large debt, high household expenditure and insecure work are particularly vulnerable to energy billing hardship.

Energy billing hardship is often experienced in conjunction with other financial stressors (see Table 2). Households may face low income, inability to afford other expenses and the need to supplement income by selling possessions or seeking welfare assistance.

Table 2: Financial stressors and energy billing hardship, Australia

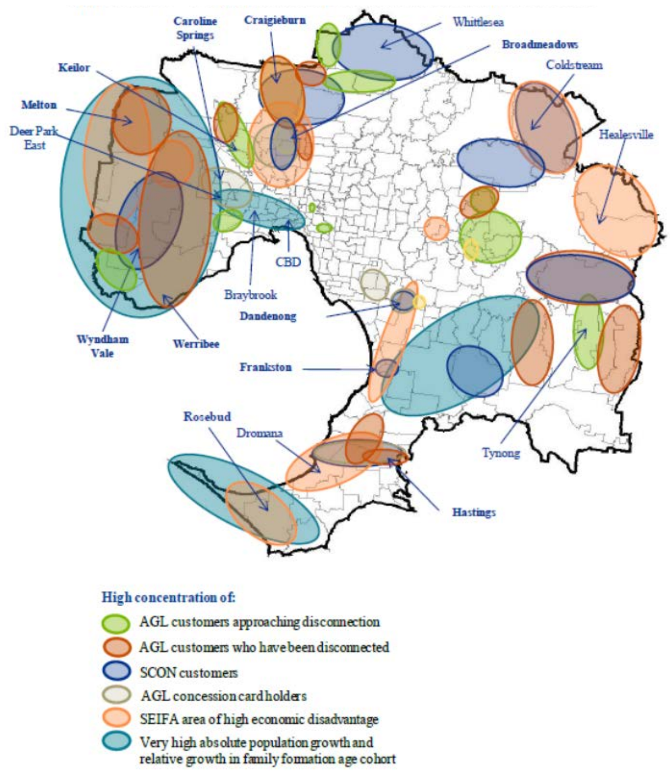
Reported stressor	% of the people unable to pay their energy bills on time (n = 1547)
Income poor	29.8
Went without meals in last 12 months	15.6
Pawned or sold something in last 12 months	16.1
Chose to restrict heating/cooling	31.2
Could not afford putting fuel in car in last 12 months	22.0
Could not afford repairing a whitegood	13.7
Assistance received from welfare organisation	16.6

Source: Azpitarte using ABS data, unpublished

There is significant energy billing hardship in Melbourne’s growth areas

AGL research shows that many of the customers they identify as in billing hardship live in growth areas. This group is characterised by ‘the head of house being aged between 30–49, living in a large house, with a substantial mortgage or rental costs and two uncontrollable consumers (otherwise known as children)’ (Simshauser 2012, p. 2). Some of these households are likely to be experiencing multiple financial stressors.

Figure 2 Geographical map of potential hardship, Melbourne (Simshauser 2012, p. 33)



Source: KPMG Demographics, AGL Energy Ltd, based on data from the ABS, customised projections prepared for the Department of Health and Ageing by the ABS

Where multiple stressors exist, financial support is likely to be an important part of effective responses.

People with disabilities are vulnerable to energy billing hardship

Our research also indicates households with a member with a disability are clearly over-represented among the fuel-poor. They account for more than 50 per cent of the fuel-poor across four independent measures—low income with high energy costs, high energy cost to income ratio, unable to heat or cool the home and unable to pay energy bills on time—suggesting they are highly vulnerable to energy billing hardship.

Poor energy efficiency of homes can increase vulnerability to hardship

Improving the energy efficiency of a home or appliances can decrease energy expenditure. However those who are on the lowest incomes or do not own their home are the least likely to be able to make upgrades. For example renter households have lower rates of insulation, window treatments and solar electricity or hot water systems than owner-occupied households (ABS 2015). Households with the lowest annual income have a higher rate of main fridges 10 years or older (37%) than households with the highest annual income (22%) (ABS 2009).

3 Other forms of fuel poverty also need to be addressed

Recommendation 4: Investigate ways to assist those households who are constraining their energy consumption to the detriment of their health and wellbeing.

While the inquiry is focused on energy billing hardship, it is notable that people experience energy-related hardship in a variety of ways, including having a low income and high energy costs, or being unable to heat their home, as well as being unable to pay bills on time. We call this fuel poverty. Our research shows that each of these definitions of hardship identifies differing populations, which may not all be recognised in the regulatory framework or the financial hardship arrangements of energy retailers.

Importantly, recent analysis indicates that people who report that they are unable to heat their home are more likely to be experiencing a number of financial stressors than those reporting they are unable to pay their energy bills on time.

Table 3: Financial stressors and fuel poverty, Australia

Reported stressor	% of the people unable to pay their energy bills on time (n = 1547)	% of the people unable to heat or cool their home when needed (n = 402)
Income poor	29.8	33.9
Went without meals in last 12 months	15.6	37.8
Pawned or sold something in last 12 months	16.1	25.1
Chose to restrict heating/cooling	31.2	76.2
Could not afford putting fuel in car in last 12 months	22.0	38.5
Could not afford repairing a whitegood	13.7	26.8
Assistance received from welfare organisation	16.6	29.2

Source: Azpitarte (unpublished) using ABS data

4 Overarching recommendations to improve energy billing hardship responses

Recommendation 1: Further investigate the costs of implementing financial hardship programs, including the proportion of resources directed to those most in need, and the appropriate level of cost sharing between energy retailers and government to address different types of energy billing hardship and fuel poverty.

Recommendation 2: Fund trials of energy billing hardship responses provided by community organisations working in partnership with energy retailers and others.

Recommendation 3: Investigate non-stigmatising ways to better identify people experiencing ongoing energy billing hardship before this escalates into unmanageable debt.

Recommendation 4: Investigate ways to assist households who are constraining their energy consumption to the detriment of their health and wellbeing.

Better identification of people facing and at risk of hardship is needed

Flexibility within ERC V11 leaves energy retailers much discretion in identifying people who are in, or at risk of energy billing hardship. Some people are unlikely to self-identify as unable to pay their bills on time. This may be because of the complex energy market which is difficult to navigate, a lack of trust of energy retailers, embarrassment at experiencing financial difficulties, or limited coping skills (WCG 2014). In some cases retailers do not accurately assess energy billing hardship and thereby fail to provide appropriate and timely responses (see the example of Mr S in footnote 3). There is a need to better identify people experiencing ongoing payment difficulty before this escalates into unmanageable debt. This includes defining some terms in ERC V11, including 'financial hardship', 'experiencing payment difficulties' and 'at risk of being unable to pay their energy bills in a timely manner'. Indicators and measures need to be developed to identify people experiencing these difficulties.

A broad and non-stigmatising approach is needed

We support the commission taking a broad approach by reviewing retailers' '*policies, practices and procedures in supporting customers experiencing financial hardship to avoid disconnection*'. Currently, retailers' financial hardship programs are the tertiary stage of the continuum of support. Prevention and early intervention also need to be a part of the picture for people experiencing difficulty paying their bills.

Consumer groups advocate a move away from hardship support as applicable only to a small group within the community (WCG 2014). Life transitions can lead to difficulties for many more. Acknowledgement of this in the way support is framed, delivered and promoted would normalise vulnerability, de-stigmatise hardship and encourage people to access support.

Retailers' policies and practices in supporting customers experiencing energy billing hardship should include early identification, engagement and proactive offering of information and support to those customers who need it. This should be done to avoid disconnection and to assist customers to regain enough financial autonomy to move out of hardship.

The water hardship review (WCG 2014) identified two distinct groups in hardship:

- **people with long term financial issues**, who despite often being good budgeters, simply had insufficient income to make ends meet and were pushed into hardship by one event, such as a large bill
- **people who had encountered a crisis** such as job loss or family breakdown, leaving them unable to service substantial financial commitments such as mortgages, loans or credit card payments

Our research identifies a third group who, while not currently experiencing payment difficulties, are experiencing fuel poverty, making them vulnerable to hardship.

Regaining financial autonomy is important

The Brotherhood's Financial Inclusion team has a long history working with households to develop financial literacy. Many of the lessons from these programs have salience for approaches to energy-related financial hardship.

Retailers' financial hardship programs operate with the aim of delaying and discouraging disconnection. In view of the ESC's questioning of the efficiency of hardship programs, BSL questions whether this objective, while of undoubted benefit to vulnerable consumers, is too restrictive. Maintaining a vulnerable customer on the verge of disconnection for an indeterminate period does nothing to lessen the likelihood of disconnection in future. This is a less effective outcome for both retailers and the community than one in which the risk of the hardship customer being disconnected in future is being measurably reduced.

Successful responses to energy-related financial hardship require a commitment to assisting customers to regain sufficient financial autonomy to move out of the hardship program. ESC's paper correctly notes that energy-related financial hardship can arise from many causes, which are often interlinked (p. 53). A lack of skill, confidence and experience in managing household budgets is, in some cases, a cause. In the Brotherhood's experience, a holistic approach to budget management is often warranted and energy-related hardship programs may need to go beyond the direct causes of that hardship. As such, we do not unconditionally accept the ESC contention that energy retailers cannot address other causes of broader financial hardship.

Building capabilities works

The Saver Plus program, operated by BSL and ANZ for the past 12 years, is a proven remedial program for low-income Australians struggling to save. The program involves participants setting a ten-month savings goal and attending ten hours of financial literacy classes. Upon completion of the program participants receive a matched savings grant from ANZ. The program has achieved substantial behaviour change, with almost 90 per cent of participants continuing to save as well as significantly improved levels of money management confidence and personal resilience.

Saver Plus responds to a capability shortfall, namely the lack of financial management skill and experience within a low-income household. The success of the program demonstrates the power of skill and confidence building programs to change behaviour. Programs like this could be developed by energy retailers. Indeed, it could be argued that, unlike ANZ and Saver Plus, there is a direct business case for energy retailers to do so, given the balance sheet impact of customer account arrears.

Beyond retailers? Who should deliver hardship programs

The effectiveness of hardship programs operated by energy retailers will to some extent be influenced by the underlying attitudes of customers to those retailers, which are in turn shaped by the reputation of Australian energy retailers in general.

Over the past few years public trust in energy retailers has been impacted by a succession of successful ACCC prosecutions of individual retailers for consumer law breaches.

For hardship programs to be effective it is vital that they not be undermined by lack of customer confidence in the company offering assistance. This raises a question that the ESC may wish to consider further: would hardship programs operated separately by an entity other than an energy retailer be more effective?

Another observation is that while a much-cited explanation of rising energy industry hardship and disconnections is rapid energy price increases, rapid price increases for water do not seem to have had such a dramatic effect. Lessons might be learned from the approach to hardship program customers of water retailers such as Yarra Valley Water, although it should be noted they have a monopoly on retail supply in each area.

Avoiding program duplication

The prerogative of Victorian customers to switch retailers may undermine, to some extent, the efforts of a retailer to help manage hardship customers' circumstances. The ESC paper notes (p. 37) that participants can leave hardship programs 'by agreement' and switching to another retailer is a legitimate choice. Victorian consumers are also able to choose separate electricity and gas providers from the 17 that were reported by the ESC to be active in 2013. Choice is a central competition policy principle but may not serve hardship programs well. An electricity retailer managing a customer in protracted arrears, for example, would most likely be unaware of the efforts being made by a gas retailer's hardship team in respect of the same customer's debt, and would therefore be less likely to achieve a successful outcome than a hardship team managing both. Thus, the hardship policy setting that ties a separate policy to each retailer delivers a fragmented response to the problem.

For hardship programs to work well, a level of commitment is required from both the retailer and the customer. If customers are seeking to leave hardship programs by switching to a competing retailer who is unaware of their previous hardship status, neither the retailer nor customer is ultimately well served; any temporary benefit to the customer will soon be eroded as their inability to meet bill obligations resurfaces.

BSL believes that a common hardship program may serve both customers and the industry better than the current arrangement of multiple stand-alone programs.

Innovative trials

Trials should be funded with the objective of reducing the incidence of disconnections among hardship program customers and assisting customers to develop their skills and confidence to the point where the likelihood of future hardship program engagement is minimised.

Approaches should include:

- holistic engagement with a range of strategies such as

  - financial literacy
  - incentives
  - better utilisation of existing support programs (for example URGs)
- non-retailer delivery, to address the trust barrier faced by some customers in engaging with their retailer
- support from community agencies with specialist skills.

Trials should be evaluated for efficiency and effectiveness compared with the current disaggregated delivery model.

5 Responses to the inquiry questions

We limit our responses to selected questions.

Q 2. Does the regulatory framework need to be improved to support customers who are unable to pay their energy bills in full and on time? If so, what improvements are needed? Are certain aspects of the framework ambiguous, unnecessary or ineffective? Are there other regulatory frameworks offering good examples that the Commission should examine?

Recommendation 5: Provide universal access to flexible payment options (e.g. instalments, Centrepay) and to adequate information, to prevent people from falling into energy billing hardship and needing to access retailers' financial hardship programs.

The harmonisation of the Victorian Energy Retail Code with the National Energy Customer Framework led to the loss of important consumer protections in the final Code (V11)[1]. Issues relevant to this review that remain outstanding in ERC V11 include:

- **universal access to payment plans:** ERC V11 restricts access to payment plans to financial hardship program customers and other customers who self-identify or who are identified by their retailer as at risk of experiencing payment difficulties. Payment plans can be a useful tool for managing energy-related financial hardship and universal access is critical because customers are not always able to self-identify as in need of a payment plan. This is a significant loss of protection for vulnerable consumers who are unaware of the need to actively request referral to hardship supports.
- **universal access to Centrepay:** ERC V11 limits payment by Centrepay[2] to financial hardship program customers on Standard Retail Contracts or on Market Retail Contracts for which Centrepay is a payment option. All Centrelink recipients should be offered payment via Centrepay: it is a preventative measure because it helps customers avoid debt by managing their ongoing payments.

[1] A full list of recommended actions is detailed in our submission to the Essential Services Commission http://www.bsl.org.au/pdfs/Joint_consumer_subm_Energy_Retail_Code_harmonisation_with_NECF_draft_decision_Aug2013.pdf). Please also refer to the submission from CUAC that discusses these issues in detail.

[2] Centrepay is a free and voluntary bill-paying service for customers receiving Centrelink payments. It allows them to pay a variety of bills in easy instalments. See <http://www.humanservices.gov.au/business/services/centrelink/centrepay-for-business-and-organisations/>

- **provision of information to all customers**: Because retailers are not required to inform customers who are not in their financial hardship program regarding energy efficiency advice and the availability of an independent financial counsellor, customers are potentially denied vital information that would assist them to better manage their energy consumption and their bills. Retailers should be required to offer this information to all customers experiencing payment difficulties.

Q 3. What incentives could be introduced to the regulatory framework to promote innovation in assisting customers who are unable to pay their bills in full and on time?

Recommendation 6: Work with community organisations, energy retailers and government agencies to develop effective incentives to promote innovation in assisting customers who are experiencing energy billing hardship.

Recommendation 7: Build greater incentives, linked with financial literacy, into programs for customers who are experiencing energy billing hardship.

Incentives for retailers to innovate

We strongly support incentives for retailers to promote innovation in order to achieve outcomes for customers experiencing energy billing hardship.

We are aware that the incentives need to be developed with community sector organisations and relevant government agencies to avoid the risk of unintended consequences.

Incentives for customers in energy billing hardship are essential

BSL believes that incentives have a vital role to play in assisting customers experiencing energy billing hardship, particularly if the scope of the programs is expanded to build capacity that will reduce the likelihood of future disconnection. The Saver Plus program combines motivation (parents typically want to achieve the matched savings grant which can be used for their children's education), advice and new behaviour learning (literacy and repeated monthly deposits) and reward (financial grant). An incentive for participants exists in the opportunity to do something positive for their children and themselves. Participants also value the interaction of the financial literacy sessions.

Building greater incentives into financial hardship programs is a key step towards improving their effectiveness.

Q 4. Does the regulatory framework provide sufficient flexibility and discretion for energy retailers to assist customers in financial hardship effectively? Should the commission's Code and guidelines be more or less prescriptive in order to facilitate best practice and promote innovation by retailers? If so, what should be changed and how?

Recommendation 8: Reduce retailers' discretion in interpreting ERC V11, so as to ensure customers in energy billing hardship are effectively identified and supported.

Recommendation 9: Define terms in ERC V11 to facilitate timely and effective support for customers.

Recommendation 10: Consider requiring retailers to offer the following support:

- **for every customer experiencing energy billing hardship: flexible payment options (including Centrepay), the best available retail market contract, Utility Relief Grants (URGs) (for eligible customers), energy advice (by phone and online) and referral to home energy visits, financial literacy support and financial counselling**
- **for all customers in recurring or persistent energy billing hardship: the above, plus incentives programs to address debt, and/or debt relief programs (ESC question 4).**

Recommendation 11: Consider appropriate funding of home energy visits, financial literacy support and financial counselling (ESC question 4).

Leave less discretion in financial hardship arrangements

We welcome the ESC's comments in the submission paper including reference to 'timely' assistance (p. 17). Early identification and intervention are vital to ensuring customers do not fall into deeper hardship before gaining the assistance they need. The ERCV11 states 'a customer in financial hardship' is a residential customer who has the intention but not the capacity to make a payment within the timeframe required by the retailer's payment terms. However no clear indicators are provided for this assessment. As discussed above, some groups experiencing energy billing hardship and fuel poverty may not currently be identified or receiving the support they need.

ESC's total financial hardship program numbers are drawn from performance indicators it has imposed, many of which are aligned with the Australian Energy Regulator's indicators. The indicators allow retailers to operate their programs in different ways. Areas of discretion referred to in the ESC paper include 'if the retailer identifies' hardship, retailer 'may determine' a payment plan is insufficient, and 'may identify' customer as a hardship customer and a retailer 'has discretion regarding the timing of ... subsequent hardship assistance options'.

The AER review found 'some retailers seem more committed than others to assisting hardship customers'. BSL argues that the hardship policies provide retailers with too much discretion.

Such discretion allowed to retailers results in vulnerable customers being dealt with in different ways. Furthermore, the aggregated data provided to the ESC cannot give an accurate picture of how hardship programs are operating.

Given the total amount of arrears, it is also possible that retailers are encouraged to delay the offer of hardship program entry because this would involve formally recognising the unpaid bill as an impaired revenue, thus undermining retailer profitability.

Less interpretation should be left to the discretion of retailers. ERC V11 should be more prescriptive to ensure customers in energy billing hardship are effectively supported. This includes requiring retailers to be more proactive in engaging with customers and in providing information about rights and obligations, supports available and financial hardship policies.

Defining the terms used in ERC V11 could lead to better practice, as follows:

- 'a customer in financial hardship': a clearer definition of hardship would assist earlier identification of those needing assistance, before debts become unmanageable (see section 4)

- ‘reasonable needs’ for referral to an interpreter [for non–English speakers]: left to the discretion of the retailer, this puts consumers at significant disadvantage as the onus of demonstrating ‘reasonable need’ shifts to them
- ‘experiencing payment difficulties’ and ‘at risk of being unable to pay their energy bills in a timely manner’: we are concerned that retailers will interpret these narrowly[3] to mean payment difficulties currently realised by a customer.

Increase the assistance offered to customers in energy billing hardship

The ERC V11 provides significant flexibility in terms of what and when support is offered to customers. While the Brotherhood recognises some flexibility is needed, it is important to increase the uptake of measures such as home energy visits. Support should include the following elements and outputs should be reported for each:

- for every customer experiencing energy billing hardship (meaning every customer in a hardship program and every customer experiencing ongoing payment difficulties): flexible payment options (including Centrepay), the best available retail market contract, energy advice (phone and online) and referral to home energy visits, financial literacy support and financial counselling
- for all customers in recurring or persistent energy billing hardship: the above, plus incentives programs to redress debt and/or debt relief programs.

There should also be appropriate funding for home energy visits, financial literacy support and financial counselling.

Q 5. How could the commission better monitor the overall effectiveness of the hardship assistance provided by energy retailers?

Recommendation 12: Monitor retailers’ expenditure on customers in different stages of hardship (e.g. persistent hardship) and measure the expenditure against the outcomes.

The commission could better monitor the overall effectiveness of the financial hardship assistance provided by retailers by developing a better set of indicators. This should be done in consultation with retailers, community organisations, government and customers. Possible measures include:

- a graduated scale that allows for some measurement of movements towards and away from disconnection
- industry averages, with which retailers (both large and small) could be compared
- equitable access to programs (p. 29).

Attention should also be given to reporting specifically on the support provided to customers in recurring or persistent hardship.

[3] See the example of Mr S, who the ESC believes was wrongfully disconnected, in part because the retailer had sufficient signs that he was experiencing payment difficulties, but the retailer claimed he was not exhibiting signs of hardship prior to disconnection <http://www.esc.vic.gov.au/getattachment/fc260973-af91-4b7e-acaf-eff43d71e5f4/jason-s.pdf>.

Number of participants switching retailers

Measuring the number of hardship program participants exiting those programs by switching to another retailer is of uncertain value. A rise in this figure might suggest that customers are seeking to 'game the system' or some retailers are happy to encourage this sort of behaviour in order to reduce future losses. Either conclusion is troubling and points to hardship policies delivering perverse outcomes, rather than any reduction in energy-related hardship.

Providing greater transparency and support

The amount of support provided by retailers to individual households in hardship is likely to vary depending on a host of factors including need. While we support some discretion for retailers, there should be greater disclosure of the cost of support provided to customers in different levels of hardship. In particular it would be useful to disclose to the ESC the cost of support for those:

- at risk of hardship
- new to the hardship program
- in recurring or persistent hardship.

Transparency about these costs may provide a first step towards benchmarking hardship expenditure in different hardship groups. It may also allow the ESC to assess whether retailers' very good (or poor) performance correlates with their expenditure per customer in hardship.

Q 6. Are there better indicators the Commission could use to assess the overall outcomes for customers in financial hardship?

Recommendation 13: Further consult with stakeholders to develop a set of robust financial hardship program outcome measures including measures of:

- **energy bill reduction relative to consumption**
- **energy consumption reduction following energy efficiency advice or improvements**
- **decreased debt.**

The ESC indicates that their current measures do not allow overall conclusions about the effectiveness of financial hardship programs to be drawn. The current measures, for example whether energy field audits or appliances were provided to participants, are output measures. We believe that outputs should be measured and monitored for the essential elements that should be offered to all financial hardship program participants (as outlined in response to Question 4). Additionally, outcome measures are needed and these should include:

- how many customers have changed to a different energy retail contract that has resulted in a lower bill relative to their consumption
- how many customers have achieved a decrease in their energy consumption (or increased amenity with the same consumption) following introduction of energy efficiency measures. These outcomes may require qualitative measures
- how have individual debts changed between entry to and exit from the program. This could be on 'successful' completion, and on exit for non-compliance.

Q 8. Are energy retailers currently providing best practice assistance to customers who are unable to pay their energy bills in full and on time? What evidence is available to support this view?

We are concerned that the current hardship policies are inadequate. This is suggested by ESC figures of total hardship program participants and disconnection increases and by low rates of key responses such as energy audits. We are aware that there are better practices in other industries including water, banking and telecommunications. We will not explore these in detail as others are better placed to address this issue.

BSL has a further concern: how can best practice be cultivated? For large energy retailers, hardship policy numbers translate into rising revenue impairment, affecting investor appraisals of the company’s value. If a company can lessen the rate at which customers fall into arrears and fail to pay their bills, it stands to benefit in business as well as reputational terms. However, in a competitive market, listed retailers that devise a more successful way of managing vulnerable customers that delivers a financial benefit to their company will resist sharing their success with others.

Q 9. Should retailers’ hardship practices be more transparent? If so, how can transparency be improved?

Recommendation 14: Require retailers to proactively communicate about their financial hardship programs and policies and how to access them, to their customers before they are in energy billing hardship.

As outlined above, we have concerns with the information asymmetry that is current and developing within the retail energy market. Retailers should proactively communicate their hardship support policies and how to access them to their customers before they are in payment difficulty or in hardship. The lack of obligation for retailers to actively inform consumers of their rights and obligations or to provide copies of the ERC and charter (beyond providing information on their website or on demand) puts consumers at significant disadvantage, particularly those consumers with no access to the internet or limited capacity to use web resources.

Q 11. Are there any other themes of best practice not covered in Chapter 5?

Recommendation 15: Assess opportunities for best practice in water hardship programs to be applied to the energy sector.

Advocacy organisations reported in the water hardship review (WCG 2014) identified the following themes for improvement of hardship responses in the water sector:

- achieving earlier intervention, by targeting those at risk more effectively, and earlier
- putting incentive arrangements in place
- communicating hardship support more widely
- normalising vulnerability and letting go of the concept of ‘hardship’
- building relationships with CALD communities using targeted media strategies.

Key elements of good practice from water retailers, identified in the WCG report, include:

- effective handling of calls from customers at the first point of contact

- assessing the circumstances of customers, including their ability to pay (so that repayments are set at an affordable level)
- moving people back towards the mainstream through appropriate incentives (including the cancellation of debt as a response to established, regular payments).

Recommendation 10 above outlines specific supports that should be offered by retailers to customers in energy billing hardship.

Q 14. Are there any other matters the Commission should consider to help customers who are unable to pay their bills in full and on time to avoid disconnection?

Recommendation 16: Improve access to energy efficiency as an important tool for preventing and managing energy billing hardship.

Energy efficiency

Data from AGL indicates the average consumption of households in their *Staying Connected* (financial hardship) program is significantly higher than the average consumption in their customer base overall. This suggests that there could be scope for efficiency gains in households experiencing energy-related hardship. The ESC paper, however, indicates the number of energy audits provided as part of financial hardship programs fell in the past year (p. 36). Residential energy efficiency is one of a number of important tools which should be used to address energy bill pressure for low-income households. Energy efficiency enables households to decrease their energy use (and associated costs) or to receive the benefits of energy (for example warmth, cooling and entertainment), while consuming less energy for the same amenity. Access to energy efficiency advice and services should be prioritised for households experiencing energy billing hardship. It can assist all customers to better manage their energy consumption and ability to pay their bills.

Importantly, energy efficiency alone is not sufficient to address all the energy-related pressures that households face. Households also need access to:

- energy rebates or concessions to directly lower the cost of bills
- emergency assistance to pay energy bills
- energy market literacy, to take advantage of competitive energy retail offers.

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Appendix: Energy billing hardship: summary of causes and effective responses

Problem	Caused by	Recommendations
High energy expenditure	**High energy usage caused by high energy needs,** for example: • poor efficiency of homes, e.g. renter households have lower rates of insulation, window treatments and solar electricity or hot water systems than owner households (ABS 2015) • poor efficiency of appliances when people can't afford to upgrade them, e.g. households with the lowest annual household income had a higher rate of main fridges 10 years or older (37%) than households with the highest annual household income (22%) (ABS 2009) • health needs requiring additional energy use, e.g. for thermo-regulation (Verikios, Summers & Simmons 2013) • large household size (ABS 2015) • inefficient energy use behaviours (see, for example, Borrell & Lane2009, Nicholls & Strengers 2015, FCLC 2008)	Energy efficiency programs for low income households and minimum energy efficiency standards – outside scope of this review **Recommendations 2 & 16**
	Expensive retail market contracts • household energy prices have risen markedly across Australia (Garnaut 2011) • current Victorian tariff design includes proportionally high fixed charges for low energy users • poor quality information about markets and contracts • low energy market literacy (leading to being on a poor market contract)	Energy market reform – outside scope of this review
Insufficient money to make ends meet	**Insufficient income** The ACOSS *Poverty in Australia 2014* report shows: • 2.55 million people (13.9% of all Australians) were living below the poverty line • 40% of people relying on social security payments lived below the poverty line, including 55% of those receiving Newstart Allowance, 47% receiving Parenting Payment, 48% receiving Disability Support Pension, 24% receiving Carer Payment, and 15% of those on Age Pension • 33% of people below the poverty line relied upon wages as their main income • the proportion of people in poverty is growing	Address inadequate incomes – outside scope of this review

Problem	Caused by	Recommendations
	High energy expenditure relative to income In 2011, those in the bottom decile of the income distribution spent on average nearly 7 per cent of their annual incomes on electricity gas and other heating fuels, whereas the richest decile spent slightly more than 1 per cent (see Azpitarte et al., forthcoming).	Address inadequate incomes – outside scope of this review Energy market reform – outside scope of this review **Recommendation 2, 5, 10, 11, 16**
Inadequate consumer protections	**Retailer non-compliance with their regulatory obligations** (e.g. overcharging, wrongful disconnection, inappropriate marketing) Consumers are negatively impacted in two ways: • directly, through being forced into financial and other hardships by the retailer's actions • indirectly, through diminished trust which may make them less confident to engage with their retailer in the case of financial hardship or payment difficulty. Early engagement is important to get the assistance to which they are entitled from their energy retailer..	**Recommendation 5**
	Poor quality information about markets and contracts Complex information and choice may not lead to better outcomes for consumers when choosing a retail energy contract (Ofgem 2013)	
Limited access to energy hardship programs	**Challenge of customer engagement** There will always be a group of customers who feel reluctant to identify themselves as being in financial hardship (AER 2015). The AER's review (2015) acknowledges: 'How a retailer engages with the customer to actively listen and validate their experience of financial vulnerability is very important in developing and maintaining longer term engagement'.	**Recommendation 2, 10 & 11**
	Vulnerable consumers 'Much consumer protection legislation is underpinned by the notion of the average or typical consumer, and what they might expect, understand or how they might behave. Consumers in vulnerable circumstances, however, may be significantly less able to represent their own interests, and more likely to suffer harm than the average consumer.' (FCA 2015)	
Insufficient household skills and experience in managing changes in financial circumstances	Limited financial management skills may lead to: • experiencing multiple financial stressors • unaffordable energy consumption • being on an inappropriate market contract	**Recommendation 2, 7, 10 & 11**

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